

**UNITED STATES DEPARTMENT OF
AGRICULTURE**

Farm Service Agency
Little Rock, Arkansas 72201

ARKANSAS NOTICE FLP-142

For: All County Offices

1910A, 1924B,
1941A, 1943A,
Handbook 3FLP

Direct Loan Making

Approved by: State Executive Director

for David M. Hays

1 Overview

A Background

There is no previous notice on this subject.

B Purpose

The purpose of this Notice is to provide a detailed loan processing checklist, Exhibit 1, to provide consistency statewide and to provide guidance on preparation of direct loan dockets, Loan Assessments and the 4C'S of credit found in the Farm Business Plan. All direct loan processing checklists being used in field offices will be discontinued. Exhibit 1 to this notice is the only checklist authorized.

C Contact

Direct questions about this notice to Bill Carter at bill.carter@ar.usda.gov.

2 Action

A FSA-410-1

Upon receipt of Form FSA 410-1, Request for Direct Loan Assistance, the authorized agency official will use Exhibit 1 to track the processing of the request. Each item of the checklist will be completed as applicable with a date and the initials of the person completing the item. NA will be completed for those items that do not apply.

Disposal Date	Distribution
February 1, 2006 2/2/2005	All FSA County Offices

2 Action (Continued)

B Farm Business Plan

Authorized agency personnel will utilize Exhibits 2A, 2B, 2C and 2D as guides in completing required Loan Assessments. Exhibits 3A, 3B, and 3C are guides to be used in completing the credit presentation areas of the Farm Business Plan.

C State Office Actions

Periodic reviews of loan files will be completed by personnel to ensure compliance with this notice.

DIRECT LOAN PROCESSING CHECKLIST

() OPERATING () FARM OWNERSHIP () EMERGENCY

<u>APPLICANT'S NAME</u>	<u>ASSISTANCE CODE</u>	<u>AMOUNT</u>	<u>File Position</u>
<u>PROCESSING APPLICATION TO COMPLETION</u>			
Reference: FmHA Instruction 1910-A, Section 1910.4			
_____ 1.	Exhibit A, FmHA Instruction 1910-A, "Information Needed to Submit an FSA Direct Loan Application"		4
_____ 2.	FSA 410-1, "Request for Direct Loan Assistance"		3
_____ 3.	FSA 2300, "Notice of Farm Loan Programs Application Received" (FmHA Instruction 1910-A, Section 1910.3 (c)(3))		4
_____ 4.	For Business Entity Applicants: Organization and Operation Documents such as Charter, Articles of Incorporation, Bylaws, Partnership or Joint Operation Agreements.		3
_____ 5.	For Prevailing Claimants in Pigford Lawsuit: Notification of Exercise of Priority Consideration under Consent Decree. (This request may be handwritten as long as the request states what is being requested such as priority for Operating Loan, Farm Ownership Loan or inventory property OR the Prevailing Claimant Priority Consideration Letter may be completed and submitted. RE: Notice FLP 313)		3
_____ 6.	Evidence that the applicant has recently applied for credit with a commercial lender for a loan at the lender's rates and terms for similar purposes and has been denied. (Document test for credit in case file).		3
_____ 7.	Income and Expenses for the past five years. (Income tax Returns may be used when other financial records are not available.)		3
_____ 8.	Production History for past five years.		3
_____ 9.	Projected production, income and expenses for the next 12 months – use FSA Form 2038, "Farm Business Plan Worksheet – Projected Income and Expenses" or a similar FSA acceptable plan.		3

<u>PROCESSING APPLICATION TO COMPLETION</u>	<u>File Position</u>
_____ 10. Current Balance Sheet listing all Assets and Liabilities as well as equipment – use FSA Form 2037 “Farm Business Plan Worksheet – Balance Sheet”. For entities: a current personal financial statement from each of the members as well as one for the entity.	3
_____ 11. Most recent account statements on credit cards, personal loans and all other bank accounts.	1
_____ 12. FSA Form 440-32, “Verification of Debts and Assets”, completed for each present creditor which reflects the creditor’s name and address and is signed and dated by the applicant.	1
_____ 13. Collect Credit Report fees payable to FSA. Fees are as follows: Joint Report - \$34.00 Individual Report - \$28.00 Entities - \$40.00 Electronic Credit Reports: \$9.80 for joint \$4.90 for individual report	
_____ 14. Form SF-3881, “ACH Vendor/Miscellaneous Payment Enrollment Form” for electronic funds transfer.	2
_____ 15. Written description of farm training, knowledge, and/or experience. For entity applicants, include a description for each individual member. Document – farm training and experience in case file.	3
_____ 16. Form FSA 1924-27, “Request for Waiver of Borrower Training Requirements”, if a waiver is being requested.	3
_____ 17. Brief written description of existing or proposed operation and how the FSA funds are to be used. Required for new applicants and existing borrowers with significant changes.	3
_____ 18. Form RD 1910-5, “Request for Verification of Employment”. Complete the form to reflect employer’s name and address, applicant’s Social Security Number, signature and date.	3
_____ 19. Verification of any non-farm income such as social security, rental income, pension.	3

<u>PROCESSING APPLICATION TO COMPLETION</u>		File Position
_____ 20.	Verification of other farm income (i.e. government payments). Copy of current year's Payment Worksheet – CCC-509B to reflect Direct Payments on each farm.	3
_____ 21.	Form RD 1940-20, "Request for Environmental Information"	3
_____ 22.	Current Form AD-1026, "Highly Erodible Land and Wetland Conservation Certification"	3
_____ 23.	Form SCS-CPA-026, "Highly Erodible Land and Wetland Conservation Determination"	3
_____ 24.	Copy of the land title and legal description of farm real estate owned.	1
_____ 25.	Copy of any real estate lease, contract or agreement entered into by the applicant or a statement of the terms and conditions of any verbal lease or agreement.	1
_____ 26:	<u>For Construction Loans Only:</u>	
_____	Copy of the plans and specifications for the improvements to be made	6
_____	Copy of the itemized construction materials list and cost.	6
_____ 27.	<u>For Emergency Loans Only:</u>	
_____	Form FSA 1945-22, "Certification of Disaster Losses" Completed, signed and dated. Ref. Handbook 3-FLP, Par. 165(A).	3
_____	Form FSA 1940-38, "Request for Lender's Verification of Loan" signed and dated.	3
_____	Form FSA 1945-26 "Calculation of Actual Loss" – prepared by FLM/FLO.	3
_____ 28.	Input Applicant Record in SCIMS and MAC.	
_____ 29.	Input Application Information in MAC Tracking	

<u>PROCESSING APPLICATION TO COMPLETION</u>		File Position
_____ 30.	CAVIRS Report. _____ MAC Workload #1067	3
_____ 31.	Set up EFT – Banking Information and Supervised Bank Account, if necessary. _____ MAC Workload Item #1007.	2
_____ 32.	Form Letter 1910-A-1, Letter used to notify applicant of incomplete application and items needed. Send no later than ten calendar days after receipt of an incomplete application and allow 20 days to provide information. Re: FmHA Instruction 1910-A, Section 1910.4(e)(3). Update MAC application tracking. _____ MAC Workload Item #1015 – MAC Completes	4
_____ 33.	Form Letter 1910-A-2, Letter used as a second notification to applicant that application is incomplete. Allow 10 days to provide information. Re: FmHA Instruction 1910-A, Section 1910.4(e)(iii). Update MAC application tracking. _____ MAC Workload Item #1016 - MAC Completes	4
_____ 34.	Obtain Current/Past Debts Inquiry, Borrower Cross Reference Inquiry screen, and MI screen for applicant. This information is to be used in determining past loan history, i.e. loss to the Government and Borrower Training History.	3
_____ 35.	<u>Prior to loan closing send borrower notification of Borrower Training requirement if Borrower Training is required.</u>	
_____ 36.	Order Credit Report for applicant. (Original in Position 3 with a copy in Position 1 if used to verify non-farm debts)	3/1
_____ 37.	Appraisal of Chattel Property. _____ MAC Workload Item #4060.	1
_____ 38.	RD Form 440-34, “Option to Purchase Real Estate”	5
_____ 39.	Real Estate Appraisal. _____ MAC Workload Item #4062 or 5002	8
_____ 40.	FSA form 1940-21, “Environmental Assessment for Class I Action” _____ MAC Workload Item #7002	3
_____ 41.	FSA 853B Environmental Assessment (Class II). _____ MAC Workload Item #7003	3

<u>PROCESSING APPLICATION TO COMPLETION</u>	<u>File Position</u>
_____ 42. FSA Form 1940-22, "Environmental Checklist for Categorical Exclusions". _____ MAC Workload Item #7000	3
_____ 43. Form Letter 1940-G-1: Letter to Provide Applicants with Notification of the Requirements of Exhibit M of FmHA Instruction 1940-G.	4
_____ 44. Due diligence investigation if real estate is taken as primary or additional security. Complete Form FSA 851. _____ MAC Workload Item #7001	3
<u>COMPLETE APPLICATION RECEIVED - DOCUMENTATION</u>	3
_____ Consider Eligibility	
_____ Authorized Loan Purpose	
_____ Loan Limits (Principal balance owed on Guaranteed loans must be considered with Principal Balances owed on Direct Loans)	
_____ Document file regarding Eligibility Determination.	3
_____ Consider Term Limits. FmHA Instruction 1941-A, Section 1941.12; FmHA Instruction 1943-A, Section 1943.12	3
_____ Application Acceptable	
_____ Update MAC to reflect the date of a complete application	
_____ Send applicant Guide Letter 1910-A-3 informing Applicant that the application is complete. _____ MAC Workload #1011.	4
_____ Application Unacceptable	
_____ Send Denial Letter to applicant by certified mail in accordance with 1-APP.	4
_____ Meet and discuss specific reasons and the alternatives with the applicant. (RE: FmHA Instruction 1910-A, Section 1910.5 (c))	
_____ Update MAC to reflect denial.	

**File
Position**

_____ Send applicant Letter of Eligibility. _____ **MAC Workload Item #1017** 4
MAC Completes

Must be approved or denied and the applicant notified in writing no later than 60 days from receipt of a complete application:

- _____ 1. Yearend Analysis (if applicable) RE: FmHA Instruction 1924-B, 3
Section 1924.55(d). _____ **MAC Workload Item #4025.**
- _____ 2. Farm Business Plan and supporting schedules (Page 8 FBP User's 3
Guide).
_____ Document Positive cash flow projection based on production and
financial history.
_____ Complete comprehensive loan assessment with borrower input per 3
FmHA Instruction 1924-B, Section 1924.55. Assessment to be
completed as part of the general information in FBP. A copy will be
printed and signed by the borrower and Loan Officer. Printed, signed
and in file _____. _____ **MAC Workload Item #4002**
_____ Review of any prior assessment per Section 1924.55(e) of
FmHA Instruction 1924-B. Review, if necessary, is documented.
_____ FBP Credit Presentation
_____ Borrower Classification. _____ **MAC Workload Item #4001** 2
_____ Document Adequate and Sufficient Security for proposed loan.
_____ Income and Expense Documentation. Projected income and expense
to be based only on accurate verifiable information.
_____ 3. Update MAC application tracking to **complete FSA Form 1940-1** for 2
Borrower's and Loan Approval Official's signature.

<u>FEASIBILITY AND LOAN APPROVAL</u>	<u>File Position</u>
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_____	4. Fax 1940-1 to State Office for funding Authorization.	2
_____	5. Input 1A Transaction into ADPS to obligate funds	2
_____	6. Check 1A for update. Obtain Loan Number from the UN Screen and update EFT with the Loan Number. _____ MAC Workload Item #1008	2
_____	7. FSA Form 1924-23, "Agreement to Complete Borrower Training" (RE: FmHA Instruction 1924-B) _____ MAC Workload Item #1019	2
_____	8. RD Form 465-5, "Transfer of Real Estate Security" (if applicable)	5
_____	9. Subordination Eligibility documentation (if applicable) _____ MAC Workload Item #4030	3
_____	10. Survey (if applicable)	5
_____	11. <u>For Construction Loans:</u>	
_____	RD Form 1924-1, "Development Plan"	5
_____	RD Form 1924-2, "Description of Materials"	5
_____	RD Form 440-58, "Estimate of Settlement Costs"	5

LOAN CLOSING

_____	1. FmHA Guide Letter 1927- B-1 Request for Title Opinion and Legal Services	5
_____	2. RD Form 1927-19, "Certification of Attorney"	5
_____	3. RD Form 1927-20, "Certification of Title Insurance Company"	5
_____	4. RD Form 1927-4, "Transmittal of Title Information"	5
_____	5. RD Form 1927-9, "Preliminary Title Opinion" or Commitment for Title Insurance.	5

LOAN CLOSING	File Position
_____ 6. RD Form 1927-15, "Loan Closing Instruction/Loan Closing Statement" _____ MAC Workload Item #1030: Close Loan Within 20 Working days.	5
_____ 7. RD Form 1927-5, "Affidavit Regarding Work or Improvement"	5
_____ 8. RD Form 1927-8, "Agreement with Prior Lienholder"	5
_____ 9. RD Form 1940-59, "Settlement Statement"	5
_____ 10. FSA Form 441-10, "Nondisturbance Agreement"	5
_____ 11. Debt Adjustment Agreement	1
_____ 12. Lien Search in all Counties of Operation.	1
_____ 13. Form CCC- 36, "FSA Assignment"/CCC -37, "Joint Payment" _____ MAC Workload Item #4083.	1
_____ 14. UCC-1, "Financing Statement" – file in County of Primary Residence for individuals and County of Primary Operation for Entities. _____ MAC Workload Item #4020	1
_____ 15. Check for need to renew any expiring Financing Statements	1
_____ 16. FSA Form 440-4, "Security Agreement" _____ MAC Workload Item #4015.	1
_____ 17. FSA Form 1927-1AR, "Real Estate Mortgage" _____ MAC Workload Item #4105	1
_____ 18. FSA Form 1940-17, "Promissory Note"	1
_____ 19. Form FSA 1965-13, "Assumption Agreement"	1
_____ 20. Supervised Bank Account decision per Farm Business Plan Credit Presentation	3
_____ 21. RD Form 402-2, "Statement of Deposit/Withdrawals"	2

LOAN CLOSING	File Position
_____ 22. RD Form 402-1, "Deposit Agreement" _____ MAC Workload Item #2011	2
_____ 23. FSA Form 1962-1, copy for borrower. _____ MAC Workload Item #4010	1
_____ 24. Exhibit C, FmHA Instruction 1910-A, Borrower Responsibilities Letter. _____ MAC Workload Item #1013.	4
_____ 25. Review of FSA Form Letter 1951-F-9 with attachments regarding sending Prospectus to private lender (Borrower sign attachment)	4
_____ 26. Warranty Deed (if applicable)	5
_____ 27. FSA Form 460-2, "Subordination by the Government" (if applicable) Subordination of Crops/Chattels Subordination of Real Estate _____ MAC Workload Item #4030.	1 5
_____ 28. FSA Form 441-17, "Certification of Obligation to Landlord"	1
_____ 29. Crop Insurance Assignment of Indemnity. _____ Workload Item #4082.	1
_____ 30. Proof of Hazard Insurance coverage on chattels	6
_____ 31. FSA Form 441-8, "Assignment of Proceeds from the Sale of Agricultural Products"	1
_____ 32. FSA Form 441-25, "Assignment of Proceeds from the Sale of of Dairy Products and Release of Security Interest"	1
_____ 33. FSA Form 455-11, "Bill of Sale"	1
_____ 34. RD Form 1965-8, "Release from Personal Liability" (if applicable)	2
_____ 35. 1C for Loan Advance. _____ MAC Workload Item #1038	
_____ 36. 1F for Loan Closing	

LOAN CLOSING**File
Position**

- _____ 37. 1M for Assumption (if applicable)
- _____ 38. 8N Classification. _____ **MAC Workload Item #4001**
- _____ 39. FSA Form 1927-10, "Final Title Opinion or Title Insurance Policy" 5

ADDITIONAL WORKLOAD ITEMS

- _____ Workload Item #1035: 15-day Loan Closing Docket Review
- _____ Workload Item #4075: Schedule Crop Inspections
- _____ Workload Item #4065: Schedule Annual Farm Visit by FSA Personnel
- _____ Workload Item #4070: Chattel Inspection by FSA Personnel
- _____ Workload Item #2004: Development Inspection by FSA Personnel
- _____ Workload Item #2005: Final Development Inspection by FSA Personnel
- _____ Workload Item #2011: Reconcile and Monitor Supervised Bank Account – Use for monthly reconciliation as part of the manual count for Work Load #1001
- _____ Workload Item #4008: Send Payment Reminder
- _____ Workload Item #4071: Schedule 3-year Real Estate Inspection by FSA Personnel

SAMPLE ASSESSMENT

TYPE OF OPERATION

Applicant is a 25-year old, new FSA applicant who meets the definition of a beginning farmer/rancher, and who is establishing a cow-calf operation using his parent's land and facilities. He has been an operator the past 2 years, owns 50 cows, and works part-time (25 hours/week @ \$11.50) for a propane delivery company. Applicant's long-term goal is to gradually buy out his parents' interests in the livestock and real estate. He uses his parents' land and facilities in exchange for labor. His parents are in their late 60's and all parties would like to complete the transfer in no more than 10 years. Financing will be a major factor because the parents are not in a financial position to simply give major assets to applicant, or to sell them to him for less than their fair market value.

GOALS AND OBJECTIVES

1. Purchase parent's interests in livestock and real estate within 10 years.
2. Increase calving rate to 92 percent over 3 years from current 85 percent.
3. Increase net worth by a minimum of at least 2 percent per year.
4. Contribute at least \$200/month to Individual Retirement Account (mutual stock fund).
5. Increase foundation herd by 25 cows/year while parents decrease their herd by this same amount.

REAL ESTATE FACILITIES AND ENVIRONMENTAL CONCERNS

Given the land, labor, and facilities presently available, this operation can support about 200 cows. There are 350 owned acres, of which 290 are pasture composed of mostly Coastal Bermuda Grass. Although well established, the pasture is in need of a fertilization and weed control program. Another 40 acres is in hayland (alfalfa and oats mixture). A rotational pasture system is used and there is sufficient hay year-round. The hay is stored as square bales in pole barns and fed outdoors in wooden feeders. Hay is readily available in case of shortage, and excess amounts can be readily sold in the local area. The hay is custom baled and labor is used to gather it in.

The ranch has eight separate pastures with barbed wire fencing and wooden gates. The gates are in poor condition and will be replaced with metal gates within the next year or two. An inspection of the fencing indicates a need for more frequent monitoring and maintenance. Several very weak or broken fence posts, as well as some breaks in the barbed wire, were observed in areas farthest away from the home site.

SAMPLE ASSESSMENT

One of the three pole barns essential to the operation has an effective age of about 40 years, and the consensus is that it will need to be replaced within about 3 years. A metal frame, 5,000-square-foot building (with dirt floor) can replace the utility this barn provided. All other outbuildings are in good to very good condition and with normal maintenance should not require major repairs or replacement within the next 15 years. The dwelling has an actual age of 95 years and an effective age of 50 years. If applicant intends to purchase the real estate as he plans, he will need to begin reserving for major renovations or total replacement of the dwelling over the next 10 years.

There is not HEL or WETLAND on the property and no crop history. This is based upon a review of AD1026, 1026A and NRCS CPA026E. The foregoing forms cover all property the loan applicant will be operating in the foreseeable future.

The farm is in a rural area and urban encroachment is not a problem.

CHATTEL PROPERTY

Applicant owns no machinery or equipment and his parents own only 2 multipurpose use Farmall tractors in good condition. He would like to purchase a disc, harrow, spraying rig, and drill because he would like to work on improving the pasture quality over the next 5 years in order to increase the rate of weight gain by the weaned calves.

FARM BUSINESS & ORGANIZATION AND KEY PERSONNEL/RECORD KEEPING

Applicant is operating as a sole proprietorship. In discussing the overall situation, all parties agree that a long-term written lease governing the operating arrangements would be advisable.

Applicant submits all income and expense receipts to his mother, who posts them to a separate ledger using the University Extension Services recordkeeping system. The financial records are in good order, but applicant agrees that he will not only learn how to keep his own books, but he will also need formal instructions for decision making.

Applicant grew up on his parents' ranch and graduated from high school. Although he has a good base of practical knowledge and experience, he would profit from knowing the basic science involved with animal husbandry, especially since he intends to implement a selective breeding and culling program.

Applicant is committed to adopting the University Extension Service's recordkeeping system, which is also used by his parents for his own operation. He will work with his mother in setting up the needed accounts and getting started, but he has agreed not to rely on her to keep his books because this is a skill he must acquire. This is to be implemented starting the January 1st.

SAMPLE ASSESSMENT

KEY MANAGEMENT GOALS

1. Seek extension service advice on beef her improvement program.
2. Obtain guidance or formal training on record keeping.

HISTORICAL FINANCIAL DATA

Applicant has had a calving rate of 85 percent since he began operating on his parents' ranch 2 years ago. His costs of \$240 per cow are about \$150 lower than the county average, mainly because he had no fixed costs. Applicant has had no operating line of his own because of his limited needs, which were met, up until now, by open credit at local cooperatives.

His net farm income was \$4,000 in 2003 and \$3,500 in 2002. His off-farm income has exceeded his living expenses of approximately \$11,000/year versus his verified net pay of \$13,500 (\$15,000 gross) for the past 2 years.

Applicant has a very low debt/asset ratio of 5 percent, but the amount of his net worth is only \$35,000, which allows little capacity to absorb unexpected financial adversity.

PROJECTED FARM BUSINESS PLAN

Applicant and I discussed, reviewed, and revised his 2004 annual operating plan based upon his actual 2002 and 2003 performance, his goals, and other factors identified. The budget reflects the purchase of 25 bred heifers (\$17,500) to be repaid over 5 years (\$4,042/year @ 5% LR rate).

We inserted the purchase of 25 bred heifers each year for the next 5 years into his long-term plan and assumed a 10 percent cull rate of the older and open cows. We compared the cost of buying the disc, harrow, spraying rig, and drill he had originally proposed and concluded it would be much cheaper and less trouble to have pasture work performed on a custom basis. Applicant fully agrees with the analysis and will not plan for those purchases, at least in the short term.

We agreed on an increase of \$4,000 per year under hired labor to help out with more frequent fence inspections and maintenance, especially since his off-farm work can interfere with his ability to get around the perimeter as much as is needed.

After recommending that he and his parents talk to an attorney about the transfer of the ranch, applicant has locked in the purchase price of the ranch at \$175,000 by using a purchase option. He can exercise the option at any time over the next 5 years. In the event FSA or commercial credit is unavailable, his parents will provide seller financing (contract for deed) over 15 years at 6 percent interest with 10 percent cash down. The purchase price looks very comparable to other ranches that have sold in the area, although an appraisal was not obtained.

SAMPLE ASSESSMENT

In conclusion, the annual plan will work with a repayment margin of 5 percent using LR interest rates. The figures used were arrived at with caution built in; therefore, both applicant and I believe the projection is solid. Nonetheless, strict adherence to the plan must be maintained and risk mitigated wherever possible. The 5-year plan will work with net worth projected to increase at an average annual rate of 8 percent. We looked at the 6th year showing the purchase of the ranch per the option rates and terms and the cash flow is insufficient. We ignored the fact that the dwelling will also need major renovations around that same time. It appears today that applicant's plan would work if he can obtain a 30-year term at no more than 8 percent interest, 5 years from now when he makes the purchase.

PLANNED CHANGES

All significant proposed changes were discussed under the above sections.

TRAINING RECOMMENDATIONS

In addition to the required under the "Borrower's Training" regulations, I am recommending that applicant enroll in an animal husbandry course at the nearby community college. This will provide the basics for the herd improvement he wishes to undertake.

MARKET PLACEMENT/TEST FOR CREDIT

Based on the local lending criteria, this beginning rancher has inadequate net worth and too narrow repayment margin to obtain commercial credit. In discussing this rancher with local lenders with regard to FSA guaranteed financing, we all seemed to agree that more supervision and training is required than the lenders would be willing or able to provide. Therefore, a market placement application will not be pursued this year.

PLANNED SUPERVISION

1. A year-end analysis will be scheduled for December 2005 because applicant is a beginning farmer/rancher and first-time FSA borrower.
2. Applicant is committed to visiting with the University Extension Service this winter (2005) to get materials and advice on the performance tracking and selective breeding of livestock. To be fully implemented in Fall of 2005.

SAMPLE ASSESSMENT

3. Visit applicant in April 2005:

- A. To examine the condition of the calf crop
- B. Review his overall program with him to see how it is working and whether there are any problems
- C. Inspect the cattle which will serve as security for the direct FSA operating loan
- D. Tour pastures, with particular attention to fences, which were noted to be in poor conditions in areas farthest from the homesite and which should be improved
- E. Review the financial recordkeeping system.

4. Visit again in September 2005:

- A. Determine whether work is going according to plan or if problems are developing.
- B. Spot-check items in 3B through 3E above.

Applicant/Borrower

Date

Loan Official

Date

SAMPLE ASSESSMENT

TYPE OF OPERATION

The borrower is 31 years old and has been operating as a tenant/operator for the past eight years. He is a graduate of the BS School of Agriculture with a degree in Ag Business Management. He meets the definition of a beginning farmer having operated a farm for less than ten years. Farm income is derived from the production of the following cash grain crops and government payments. The crops produced are wheat, rice, soybeans and grain sorghum. This is a well managed and efficient operation as reflected by his consistently good yields and his ability to manage operating expenses to maximize profits as reflected in the annual analysis completed during the past years.

GOALS AND OBJECTIVES

Short term goals are to continue to increase the size of his farming operation as good productive farm land in Greene County becomes available; and if necessary, rent land located in adjacent Craighead County. Obtain production financing from conventional sources with FSA Guaranteed Loan assistance. His long term goals are to purchase a 160 acre farm he is now renting and to graduate entirely from FSA assistance.

REAL ESTATE FACILITIES & ENVIRONMENTAL CONCERNS

FARM & NON FARM TRACTS

LOCATION

The farming operation is located in southeastern Greene County in the Shughtown area. The operation consists of 1500 acres of rented land. Rental terms are crop share of 75/25 rice and 67/33 share wheat, soybeans and grain sorghum. The borrower lives in a house located on one of the farms. He owns no real estate.

EXISTING IMPROVEMENTS

All the land is irrigated and approximately 500 acres is precision leveled. The borrower has available to him 30,000 bushels of on farm storage at no cost other than utilities. Existing grain delivery points are within a 20 mile radius of the operation. In addition to the on farm storage the operation has a 60 X 80 farm shop where normal maintenance of equipment can be completed.

SAMPLE ASSESSMENT

PLANNED IMPROVEMENTS

No improvements to the land or facilities are planned by the borrower or the landlords in 2005.

ENVIRONMENTAL ISSUES/CONCERNS

HEL/WETLANDS

The FSA Program records for Greene County have been viewed and there are no highly erodible lands or wetlands lands located on the proposed operation. A 1940-22 Categorical Exclusion has been completed for 2005.

HAZARDOUS WASTE

There are no known environmental hazards present on any of the properties. The borrower disposes of all chemical, oil and grease containers in a manner prescribed by the manufacture's label.

CONSERVATION PRACTICES/MEASURES

The borrower practices no-till and minimum tillage in his operation to maximize production and reduce cost. These practices are also environmentally friendly. He has a very good working relation with the local NRCS and County Extension Office to maintain water quality and conservation in the farming operation.

ADEQUACY AND CONTINUED AVAILABILITY OF REAL ESTATE

OWNED AND RENTED

The land and facilities are well suited to the operation as planned. The borrower has current leases with remaining terms of 3 to 5 years.

EXTERNAL FACTORS

As stated the operation is located in rural Greene County and does not have to contend with urban factors or zoning requirements.

SAMPLE ASSESSMENT

CHATTEL PROPERTY

In addition to the farm machinery owned by the borrower and listed on the chattel appraisal dated 12/06/04 he leases a 300 hp tractor in the spring and fall. All of the machinery either owned or leased is adequate and suitable for the planned operation.

FARM BUSINESS ORGANIZATION AND KEY PERSONNEL/RECORD KEEPING

This is a single proprietorship with the borrower providing all the management with one full time hired hand and seasonal help in the spring and fall. The seasonal help is readily available. The borrower maintains a record keeping system that provides all the data required by FSA to complete the FSA annual analysis and for his CPA to complete his annual tax returns.

KEY MANAGEMENT GOALS

Continue to utilize no-till and minimum tillage in the operation.
Purchase only certified or registered seed containing the latest tech features.
Utilize the local extension office to conduct annual soil samples.
Apply fertilize per the extension service soil sample recommendations.
Plant crops when soil temps reach the optimum levels.
Apply herbicides and pesticides as recommended by the field scout.
Harvest crops when optimum moisture levels are reached.
Continue to maintain accurate and up to date yield, expense and income records.

HISTORICAL FINANCIAL DATA

Tax returns are obtained annually from the borrower and an annual analysis has been completed during each of the past years the borrower has done business with FSA. Tax returns are included in the running record and summations of the annual analysis are contained in the FBP.

PROJECTED FARM BUSINESS PLAN

Prices used in the FBP for 2005 are those authorized in Ark Notice FLP-140. The prices reflected in the FBP are wheat \$3.10 per bushel, soybeans \$3.60 per bushel, rice \$3.15 per bushel and grain sorghum \$2.15 per bushel. At this time no crops have been forward contracted. DCP payments for 2005 are projected at \$40,000.00 based upon FSA print outs. No CC payments are projected. Yields used in the 2005 FBP were taken from the FBP production history trends work sheet and are as follows: rice 140, soybeans 42, wheat 60 and grain sorghum 80 bushels to the acre. Production expenses are based upon his historical data with adjustments made for the cropping plans for 2005. 2004 actual expenses not including depreciation were \$350,000.00. 2005 planned expenses not including depreciation are \$365,000.00. The increase is due to higher fuel and fertilizer cost.

SAMPLE ASSESSMENT

PLANNED CHANGES

No changes in land, cropping practices or farm machinery are planned for 2005.

TRAINING RECOMMENDATIONS

The borrower has completed the FSA financial management course even though he could have requested and received a waiver. No additional training is being required.

MARKET PLACEMENT/TEST FOR CREDIT

The Hometown Bank of Shugtown has agreed to participate in the 2005 operation by extending 70% of the borrower's operating needs with FSA contributing 30% of needs. FSA will subordinate its lien on crops and equipment to the bank. FSA has requested the bank consider borrower's needs with an FSA guarantee, but the board has declined for 2005. However they have indicated if the borrower continues to do as well in 2005 as he has in the past in 2006 they will make his production loan with an FSA guarantee.

PLANNED SUPERVISION

A crop inspection is planned for July and a crop/chattel inspection is scheduled for October.

Applicant/Borrower

Date

Loan Official

Date

SAMPLE ASSESSMENT**AN ASSESSMENT OF LOAN APPLICANT/BORROWER** - _____

Prepared by: Lady Jones, Farm Loan Officer, 1/9/04

TYPE OF OPERATION

This applicant is 35 years old and has farmed for 3 years. This year will be the first year the applicant has farmed individually. In 2001, 2002 and 2003, he farmed as a partner in DBT Farms, along with C.L. Smith. He meets the definition of a beginning farmer/rancher. In 2003, the partnership planted Cotton, Soybeans and Rice. They have divided the acreage on the farm known as the Diamond Back Farm. Applicant intends to plant the same crops in 2004 but change up the acreage allotted to each crop. Rental terms are 75/25 share rent on a portion of the farm growing soybeans and rice and 80/20 share rent on the remainder that grows cotton.

GOALS AND OBJECTIVES

His short term goal is to produce the 2004 crops as conservatively as possible. He plans to work with the County Extension Service to obtain updated information that can be used to maximize his yields. The farm he is renting has been leveled to the point where he can irrigate all of the acreage. His long term goals include increasing his production and decreasing production costs to the point where he no longer has to obtain FSA financing for his production loan but can obtain this assistance from a local lender possibly through the Guaranteed Program. (*Note: Address any planned improvements to be implemented here).*

REAL ESTATE FACILITIES & ENVIRONMENTAL CONCERNS

No real estate has been taken as security; however, the land rented is sizeable enough to support the type operation he proposes.

- (a) **Location and Size:** 741 cultivatable acres of land rented on farm known as the North Complex Farm.
- (b) **Proposed and Existing Improvements:** No new improvements are planned such as leveling, etc.
- (c) **Presence of Environmental Hazards:** The applicant provided a copy of AD Form 1026, AD Form 1026-A reflecting current information and Form NRCS-CPA 026 which indicates that there are Prior Converted Wetlands (converted prior to December 23, 1985) but no HEL land. Form FmHA 1940-22, Environmental Checklist for Categorical Exclusion, was prepared for the operation.

SAMPLE ASSESSMENT

- (d) **Conservation Practices and Measures:** Those generally found on a farming operation of this size. The planning does not include any proposals that would deviate from normal tilling, planting, cultivating and harvesting practices.
- (e) **Adequacy and Continued Availability of Real Estate:** Applicant has the use of a Steel Building and a pole barn that is located on the farm. He plans to use the Steel Building as a farm shop and some of his farm machinery will be stored in the pole barn. There is no on-farm storage available for crop storage so he plans to haul the rice directly to the Rice Mill and the soybeans to Grain Terminal at harvest. The cotton will be delivered to Cotton Gin Company for sale through Staplcotn. The Borrower has no fear of not being able to renew his farm lease when it terminates 12/31/2005.
- (f) **External Factors, such as urban encroachment and Zoning Changes:** None Known

CHATTEL PROPERTY

He owns several items of equipment. The equipment should be adequate to farm the acreage/crops proposed – see Chattel Appraisal for details. No major purchases are planned.

FARM BUSINESS ORGANIZATION & KEY PERSONNEL/RECORD KEEPING

Applicant will be primarily responsible for the day-to-day operation and oversight of the farm. He will perform most of the labor himself but will be hiring part time labor that will help with the planting and harvesting of the crops. Applicant will be required to maintain acceptable farm records. He has been provided the Farm Record Book from FSA to be used. He has instructed his CPA to provide a monthly printout of income and expenses to FSA for review. His records will be reviewed on a regular basis. Therefore, his expenses will be monitored in this fashion and suggestions made.

KEY MANAGEMENT GOALS

- Develop a maintenance schedule for machinery/equipment
- Soil Test and Fertilize/apply lime according to results
- Plant Certified Seed
- Spray Chemicals and insecticides as needed to maintain good weed/insect control.
- Keep production records of all crops by fields.
- Follow Farm Business Plan as Developed
- Discuss any changes in the FBP with FSA before it occurs.
- Follow Form FSA 1962-1 regarding security.
- Keep and use itemized income and expense records.
- No capital purchases without concurrence of FSA
- Record all Income and Expenses and review at least monthly.
- Use records to analyze operation and make management decisions.

SAMPLE ASSESSMENT

HISTORICAL FINANCIAL DATA

His credit reports reflect an acceptable payment history. The credit report reflects four items out of 17 items of credit that are adverse. In reviewing these four items, it is noted that three entries are paid collections to Memorial Hospital and the last activity was in 1998 and 2001. The fourth adverse item is one time over 30 days to a mortgage company that has been paid off and the last activity was in 1995. Therefore, these adverse entries occurred more than 36 months ago and do not reflect a pattern of late payments or delinquent accounts. DBT Farm Partnership was able to pay their 2003 FSA loan in full as well as all other obligations due by December 31, 2003. The operation has a debt-to-asset ratio of ____ to _____. (**NOTE: Address Net Farm Income, debt/asset ratio, net worth, capacity here.**)

PROJECTED FARM BUSINESS PLAN

FSA Loan Funds will be used for operating expenses and family living costs (1 Year OL) as well as refinancing the carryover expenses from 2002 with AGRO (7 year OL) which will be secured by equipment equity. The Farm Business Plan shows that funds will be available to meet farm expenses, family living expenses and debt obligations. (**NOTE: Address any loan requests and adequacy of the security for the loan, debt service margin and repayment margin here**)

PLANNED CHANGES

No major changes are planned at this time.

TRAINING RECOMMENDATIONS

Applicant has not requested a Waiver of Borrower training and will be required to sign FSA Form 1924-23 at loan closing agreeing to take the Borrower Training Course as soon as possible. He must take this training within two years from the date of the agreement in order to be eligible for future FSA financing. Meanwhile, I will work with the applicant giving advice and oversight on proper record keeping as well as referring him to the appropriate office handling any other identified training needs.

MARKET PLACEMENT/TEST FOR CREDIT

Applicant attempted to obtain a loan from a conventional lender but was denied due to lack of collateral (See Lender's Denial dated 12/17/03). Since he is a beginning farmer with very few assets and little equity on which a conventional loan could be based, FSA appears to be the only source of available credit at affordable rates and terms.

SAMPLE ASSESSMENT**PLANNED SUPERVISION**

Applicant is committed to visiting with the County Extension Service to obtain any materials and advice available applicable to his type operation – Ranging from seed bed preparation to proper irrigation and chemical applications.

- (a) A crop inspection will be scheduled for June and another crop inspection scheduled for September. Other farm visits will be scheduled and made as necessary. Since this is the first Direct FSA Loan for this applicant as an individual, a year end analysis is scheduled for January, 2005 - after he harvests his 2004 crops and an evaluation of all income and expenses involved can be made.

Applicant/Borrower

Date

Loan Official

Date

SAMPLE ASSESSMENT

TYPE OF OPERATION

Applicant owns a poultry and beef farm near Anytown, Arkansas. He has owned the farm since 1977. Farm consists of 105 acres with about 80 acres in farmstead and pasture and 25 acres of woods. Farm has been a working broiler farm since the mid sixties. Applicant purchased the farm with two small 40x250 broiler houses. One of the older houses collapsed due to the ice storm in 1996 and insurance replaced and upgraded the other older house. Farm was upgraded with two new houses in 1997 and two more in 1999. Total broiler capacity is about 95,000 broilers in 88,000 square feet. He is a full time farmer with good production history. Beef production is a secondary source of income but is very compatible with the poultry operation. Poultry litter is utilized on pasture and hay ground. Farm will carry 50-55 cow-calf units. XYZ Poultry of Arkansas is the integrator supplying birds to the farm. The houses all meet their current Grade "A" standards.

GOALS AND OBJECTIVES

1. Be basically debt free on farm in 10 years.
2. Pay off IT debt in less time than scheduled payout.
3. Increase cow herd to 55-mother cows with the new FSA loan and maintain by keeping adequate replacement heifers.
4. Initiate a retirement account within two years and contribute the maximum yearly.

REAL ESTATE FACILITIES & ENVIRONMENTAL CONCERNS

Farm consists of 105 acres more or less. About 75 acres is in excellent improved pasture and is maintained with poultry litter fertilization. Five acres is in farmstead and 25 acres are in woods. Some of the woodland could be cleaned up and established to pasture as it is suitable. Water for the broiler operation and household use is from Public Water Authority and is adequate. The five broiler houses all meet current integrator standards and should be good for 5-7 years without updates required. Solid sidewalls were added in 2003 and this has improved efficiency of heating and cooling and should save on gas bill. The buildings range from 4-30 years old but the older building has been continually up-graded. Farm dwelling was built in 1977 and needs some updating and borrower is in process of trying to obtain loan to upgrade and increase the size.

Environmental concerns:

A new stacking shed was completed in 2003 for storage of litter for periods of inclement weather when it cannot be sold or spread on pasture. A compost building is used for dead bird disposal as well as incinerators for burning the carcasses. Poultry litter disposal is only major environmental concern and about 90 percent is sold for removal from the farm. Only enough litter to maintain pasture to optimum growth is spread on farm. There is no HEL or WETLAND on farm with a history of producing commodities. Due diligence by Farm Credit Services in connection with the guaranteed loan in 2003 indicates no hazardous wastes.

SAMPLE ASSESSMENT

CHATTEL PROPERTY

Farm equipment with the recent tractor trade is adequate for the operation. The only updating in the foreseeable future would possibly be a hay baler up grade in 2-3 years. The poultry equipment in the houses is all in good condition and has been upgraded in the older houses in past five to seven years. The farm will be at carry capacity with the planned purchase of the cattle.

FARM BUSINESS & ORGANIZATION & KEY PERSONNEL/RECORD KEEPING

Applicant operates as a sole proprietor. His current spouse maintains records of income and expense on a computer. Operating expense records are maintained in direct relation to Schedule F of the IRS 1040. Records will be maintained the same in the future. Applicant is the owner of the farm and his spouse has a marital interest by state law. Income taxes are filed jointly. Spouse receives social security disability check but income is not included in the operation and income statement. Spouse is not liable for the guaranteed farm ownership debt and will not be co-obligor on the planned operating loan for the cattle.

KEY MANAGEMENT GOALS

Initiate a retirement account.
Reduce heat expense in poultry houses by proper ventilation and temperature management.
Sell litter with proceeds to be used for debt payment to John Deere Credit on the tractor recently purchased.
Increase funds held account at Farm Credit Services to have available for major repairs that might be necessary.
Purchase 25-30 high quality young cows and then maintain herd at 50-55 mother cows by keeping outstanding heifers.

HISTORICAL FINANCIAL DATA

FSA presently has guaranteed loan with applicant on poultry farm and direct operating loan on cattle and equipment. The operating loan with a balance of some \$22,000 is all due and payable in 2006. Recent financial information was not available in the county office file and borrower has provided 2001, 2002 and 2003 IRS records. The two prior years would be of little benefit as operation changed in 2000 and not a full year operation until 2001. Borrower has a good history as a poultry grower. Livestock income has been down for past three years due to reduction in herd numbers through death loss and culling of non producers and old cows. Applicant bought 50 cows in 1990 and some of these cows are still on the farm. Three year income and expense averages are a part of the cash flow history in the income and expense statement.

SAMPLE ASSESSMENT**PROJECTED FARM BUSINESS PLAN**

Projections in the income statement for the year of 2005 are expected to be typical once the livestock numbers are brought back up. He presently has 37 cows and breeding age heifers and plans to purchase at least 25-30 more and will cull nine cows in 2004 and use proceeds to pay extra on the 44-16 loan for the balloon installment due in 2006. The projections are in line with 2001-2003 actuals allowing for the change in livestock numbers. There is really little expense change as the feed supplement and livestock medicine should be the only increase in cost.

PLANNED CHANGES

None planned other than discussed elsewhere in this assessment.

TRAINING RECOMMENDATIONS

Training is being waived. Borrower works closely with poultry integrator field man and no production problems are noted. Borrower has always had some type of record keeping system and has been able to provide income and expense records when required. He now has a computer and all records of income and expense are entered into the system. He has been 27 year FSA borrower and will maintain the records.

MARKET PLACEMENT/TEST FOR CREDIT

Cash flow margin is at 107 percent and with the low owner equity other area lenders are not interested in loan of this type with cattle as high as they are. The manager of AgHeritage who has the guaranteed poultry loan said that borrower has owner equity and the price of the cattle to be purchased that there was not adequate equity in the livestock to entice them to make the loan. The recent tractor trade reduced equity somewhat and reduced debt service margin. He also stated that borrower's current wife had a recent bankruptcy and this was a detriment to their being able to make any loans in the next couple of years.

PLANNED SUPERVISION

Annual chattel inspection will be made and a review of operation in August of each year. Year end analysis will be made at the end of 2005 in accordance with FmHA/FSA Instruction 1924-B.

A farm visit to inspect livestock purchased will be made in November 2004.

Applicant/Borrower

Date

Loan Official

Date

2/2/05

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SAMPLE 4C'S**COLLATERAL**

Collateral for the loan and present debt will consist of livestock and equipment presently securing the FSA OL debt and the livestock to be purchased. The existing collateral has appraised value of \$81,250 with a prior lien to JD Credit on three items in the amount of \$25,641. The hard security for the total planned FSA debt is about \$85,609, including the purchase of \$30,000 in collateral at dollar to dollar value, which formulates a new debt of principal and interest close to \$52,000 or 164 percent loan to value. This meets the requirements of 1941-A Section 1941.19.

CAPACITY

Capacity analysis is based on the loan applicant's past three year history with the projected increase in livestock income from the cattle to be purchased. Applicant grows broilers for Townsend Farms of Arkansas. He has been producing for this integrator approximately 15 years. The income projected from the broiler operation is based upon the last three years with emphasis to the last three flocks. His placement is about 95,000 birds per flock with livability of 95%. Normal production is five flocks per year. Income projection for the current year is \$181,600, and 2003 actual was \$182,948.35 verified by (2003) 1099 Miscellaneous Statement. The prior two years were less, but he has made progress since updating poultry houses in late 2002. Beef cattle income is based on a 55 cow herd with an 80 percent calf crop. Plans are to sell 40 mixed steer and heifer calves weighing 500 pounds at an average of 90 cents per pound. The projected income from beef cows and poultry is in line with history and typical operations. The borrower also sells most of the litter from his poultry operation to a local man who sells to farmers for fertilize. He receives \$120 per load and we estimate selling 50 loads per year. He has a stacking shed for litter storage if necessary in unseasonable weather.

Plan is feasible with income projected of \$207,600. Cash expense and owner withdrawal (exclusive of interest and depreciation) is \$109,000. A balance of \$98,600 minus taxes and debt to pay of \$93,281.00 leaves a positive margin of \$5,319 or TDCCLR of 107%.

CAPITAL

Balance sheet shows a net worth of \$156,587 with owner equity of 19.58%. This is weak but is typical of these type poultry operations with high investment in facilities. The facilities have a normal expected life of 25 years. Normal payback is 15 years so the ratios will turn around over a few years. Income is received five times per year and is adequate to make the payments on the large loan to FCS and to meet annual operating and owner withdrawals.

CONDITIONS

Subject to availability of funds.

First lien on livestock to be purchased.

Lien on all farm equipment presently owned subject to JD Credit debt on three items.

A repayment plan of seven years with first year payment due 12/31/2005.

SAMPLE 4C'S**COLLATERAL/SECURITY**

- (1) First lien on all crops with projected sales using commodity prices outlined in Arkansas Notice FLP-118, as follows:

307.3 acres of rice with projected sales of \$91,989.00
232.6 acres of soybeans with projected sales of \$35,811.00
162.4 acres of cotton with projected sales of \$76,857.00

- (2) Government Payments projected at \$10,949.00 and Crop Insurance Settlement. Proceeds, if any.
- (3) Best lien obtainable on all equipment valued at \$128,300.00 according to an appraisal completed by FSA personnel on 11/12/03 less prior liens of \$18,062.00 in favor of Case Credit, \$2,317.00 in favor of John Deere, \$2,940.00 in favor of Hometown Bank, \$18,187.00 in favor of Scott Tractor and in favor of FSA's proposed 7-year term OL Loan of \$25,000.00.

Security requirements of Paragraph 1941.19, FmHA Instruction 1941-A have been met. The total crop security available for this loan is \$230,105.00 which equates to approximately 130% security for the \$175,000.00 crop loan. However, the applicant has equipment equity behind the prior liens of approximately \$44,965.00; therefore, the equipment will be encumbered to obtain the required loan security of 150%. The need to encumber any other additional security, aside from the equipment, will not be necessary.

CAPACITY

The total projected income from all sources is \$230,105.00 and the total projected operating expenses are \$166,368.00 and Family Living Expenses are \$24,000.00 which indicates a Net Cash Income of \$39,737.00 from which to pay term installments and projected income and social security taxes totaling \$36,698.00. In addition, the borrower has cash on hand of \$10,949.00 from the first half of his 2004 Direct Payment. He plans to use those monies to address two of the term installments. Therefore, based on the projections of income and expenses, the borrower should realize overall clear monies of \$13,988.00.

Projections were based on a 5-year average of yields. Applicant has only three years of actual production history and two of those years were disaster years. Therefore I used County Averages for the first two years as well as the disaster years because county averages were higher than the actuals (RE: Paragraph 1924.56(b)(1)(iii), FmHA Instruction 1924-B) and finally, I used the actual 2003 yields to arrive at the 5-year yields reflected.

Applicant's has requested \$24,000.00 of his 1-year OL to be used for family living expenses. This family consists of six members and in my opinion, the amount of family living expenses appears reasonable. The applicant did not report any non-farm income. His spouse does not work outside the home.

SAMPLE 4C'S

The Farm Operating expenses are based on applicant's actual request. It is noted that applicant's request is very conservative based on loan rates reported by two conventional lenders. However, applicant does not plan to borrow harvesting expenses and the amount requested is in line with the operating loan obtained by DBT Farm Partnership for 2002 and 2003. Therefore, I feel that realistic expenses were used in developing the Plan in accordance with Paragraph 1924.57(d)(2), FmHA Instruction 1924-B.

Applicant was an equal partner in DBT Farms which marketed 2003 cotton through Staplcotn. Staplcotn is expected to periodically pay advances for the 2003 crop during 2004. Therefore, the applicant and the other partner, C L Smith will split the advances 50-50. Other Farm Income is income expected from the remainder of the FSA program payments and applicant's half of Staplcotn draws

CAPITAL

Applicant has on hand \$10,949.00 which is the first half of the 2004 Direct Payment. He plans to use \$6,686.00 to pay the installment on the combine that is due on 1/22/04 and use the remainder to pay a portion of installment on the 4650 tractor that is due on 4/5/04. In addition, he expects another \$10,949.00 from DCP and \$14,499.00 from Staplcotn as progress payments from the 2003 cotton crop. He plans to use the Staplcotn funds to pay installments on three of his equipment debts owed to other lenders and the final DCP payment will be paid on the proposed 1-year OL. He will use \$24,000.00 of the 1-year OL for family living and the remainder of \$151,000.00 for operating expenses to plant and raise the crops. Harvesting expenses of \$11,368.00 are planned and can be released from early crop sales, if needed.

CONDITIONS

1. Loan is approved subject to availability of funding
2. No loan proceeds may be used for the Conversion of HEL or Wetlands.
3. No equipment purchase or equipment trades are to be made without written consent of FSA personnel
4. Hazard insurance coverage on all chattel security for loan at the tax or cost depreciated value
5. Funds will be disbursed thru EFT deposit in borrower's farm account established in The Hometown Bank.
6. No releases to be made other than those described on FSA Form 1962-1.
7. Lien searches in all counties of operation at loan closing
8. At loan closing obtain new security agreement and file Financing Statement in county of primary residence
9. Borrower Training: Applicant will be required to sign Form FSA 1924-23, "Agreement to Complete Training" at loan closing. He must complete the training within two years from loan closing to comply with the requirements of Paragraph 1924.74, FmHA/FSA Instruction 1924-B.
10. Recordkeeping Requirements: Borrower will maintain a hard record keeping system - including family living expenses. At a minimum, he must complete the Farm Record Book. Farm Operating records to be reviewed by FSA personnel on a periodic basis but at least quarterly.

SAMPLE 4C'S

COLLATERAL

FSA will have a first lien on crops to be grown an assignment of all government payments, assignment of 2005 crop insurance and a best lien obtainable on the borrower's farm machinery as reflected in the chattel appraisal dated 12/06/2004. The collateral analysis section of the FBP reflects a loan/value of 44.5% and a margin of 2.24. There are no prior liens on the farm machinery.

CAPACITY

Based upon the FBP Income Statement dated 12/15/2004 the borrower has a CDRC – Capital debt Repayment Capacity of 1.20%.

CAPITAL

The current balance sheet of the FBP dated 12/15/200 reflects a net worth of \$40,000.00 which is the equity position in the farm machinery listed on the 12/06/2004 chattel appraisal. The only change to the borrowers' capital position will be the borrowed capital of the 2005 annual operating loan.

CONDITIONS

FSA to have first lien on 2005 crops, assignment of all government payments, assignment of crop insurance and best lien obtainable on the farm machinery listed on the 12/06/2004 chattel appraisal.

Loans funds in the amount of \$55,000.00 will be used for family living and the production of the 2005 crop.

FSA will subordinate its interest in crops and equipment to the Hometown Bank of Shughtown in the amount of \$245,000.00.

The borrower is not authorized to make capital purchases in 2005.

The borrower will maintain his current record keeping system and fully account for all crops, crop income and expenses.

